

**TOWNSHIP OF CHESTER**  
**OTSEGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CHARLTON TOWNSHIP	County OTSEGO
Fiscal Year End MARCH 31, 2006	Opinion Date SEPTEMBER 26, 2006	Date Audit Report Submitted to State SEPTEMBER 29, 2006	

We affirm that:

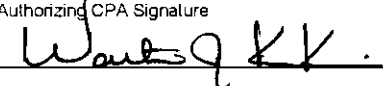
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) KESKINE, COOK, MILLER & ALEXANDER		Telephone Number (989) 732-7515	
Street Address 100 WEST FIRST STREET		City GAYLORD	State MI
Zip 49735			
Authorizing CPA Signature 		Printed Name WALT KESKINE, CPA	License Number 1101008795

### **Township Officials**

Supervisor

Clerk

Melissa Szymanski

Treasurer

Barb Lewendowski

### **Trustees**

Jean Nowicki

Wanda Basinski

## **Chester Township**

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**Keskine, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskine, C.P.A.  
Jeffrey B. Cook, C.P.A.  
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Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

### **Independent Auditor's Report**

September 26, 2006

To the Township Board  
Chester Township  
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Chester, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of the Township of Chester as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-5 and budgetary comparison information on pages 21-23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*K. Cook Miller & Alexander LLP*  
KESKINE, COOK, MILLER & ALEXANDER, LLP

Melissa Szymanski

Clerk

**Chester**

**Township**

7259 M-32

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chester Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements that immediately follow this section.

### Financial Analysis of the Township as a Whole

Our financial status slightly improved over the last year.

Overall revenues were approximately \$241,000, of which approximately \$29,000 is classified as program revenues, and approximately \$212,000 is classified as general revenues (consisting primarily of state-shared revenues and property taxes). Total revenues increased by approximately \$17,000 over the prior year due to the receipt of a grant from the State of Michigan for \$23,900 to cover the expenses associated with having personal property tax audits conducted for business located within the Township. The audits have increased the anticipated personal property tax revenues for the future. Total property tax revenue decreased by approximately \$5,000 due to tax refunds that were provided as the result of cases from the State's tax tribunal process.

Overall expenses totaled approximately \$218,000 which is approximately \$119,000 less than the year ended March 31, 2005. The decrease in expenditures is a result of a large road project that was performed during the year ended March 31, 2005 that totaled approximately \$161,000. Total road project expenses in the year ended March 31, 2006 totaled approximately \$27,000. The activities of the Township have remained the same.

Total assets total approximately \$646,000, which consists of approximately \$164,000 in capital assets and approximately \$482,000 in cash and cash equivalents.

Net assets as of March 31, 2006 total approximately \$631,000 which represents an increase of approximately \$23,000 from the year ended March 31, 2005. Approximately \$164,000 of the total net assets is invested in capital assets with approximately \$467,000 being unrestricted.

The following table shows in condensed format, the net assets as of March 31, 2006.

	Governmental Activities	
	March 31, 2006	March 31, 2005
<b>Assets</b>		
Current assets	\$ 482,000	\$ 439,000
Noncurrent assets	164,000	170,000
Total assets	<u>646,000</u>	<u>609,000</u>
<b>Current Liabilities</b>	15,000	2,000
<b>Net Assets</b>		
Invested in capital assets - net of related debt	164,000	170,000
Unrestricted	467,000	437,000
Total net assets	<u>\$ 631,000</u>	<u>\$ 607,000</u>

The following table shows in condensed format the changes of the net assets during the current year:

	Governmental Activities	
	March 31, 2006	March 31, 2005
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 5,000	\$ 5,000
Operating grants and contributions	24,000	-
General revenue:		
Property taxes and assessments	114,000	120,000
State sources	89,000	87,000
Unrestricted investment earnings	9,000	11,000
Other		1,000
Total revenue	<u>241,000</u>	<u>224,000</u>
<b>Program Expenses</b>		
General government	161,000	136,000
Public safety	27,000	30,000
Public works	30,000	171,000
Total program expenses	<u>218,000</u>	<u>337,000</u>
<b>Change in Net Assets</b>	<u>\$ 23,000</u>	<u>\$ (113,000)</u>

### Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities. The remaining statements are fund financial statements, which focus on the detailed activities of the general fund (the only fund of the Township).

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

### **Government-Wide Statements**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider tax base changes and other various economic conditions.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Township's funds. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following fund:

**General Fund:** This fund is used to record all activities of the Township not required to be recorded in a separate fund. The major source of revenue for the general fund is from the Township tax base and revenue sharing from the State of Michigan. The major expenses for the year include the general operating activities of the Township. Chester Township outsources fire protection to both the Otsego County Fire Board and the Charlton Township Fire Department. The costs associated with these fire protection contracts are also included in the general fund.

### **Capital Asset and Long-Term Debt Activity**

For the year ended March 31, 2006, the Township purchased no capital assets. Depreciation expense for the year totaled approximately \$6,000. Total capital assets total approximately \$213,000 of which approximately \$49,000 has previously been depreciated.

The Township has no outstanding long-term debt or capital leases.

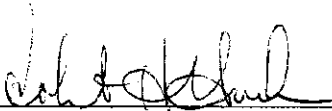
### **Known Factors affecting Future Operations**



None

### **Contacting Township Management**

This financial report is designed to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report, please contact the Township Clerk at the following address: Melissa Szymanski, Chester Township Clerk, 1737 Big Lake Road, Gaylord, MI 49735.

A handwritten signature in black ink, appearing to read "Robert Harkess", written over a horizontal line.

Robert Harkess, Supervisor

**TOWNSHIP OF CHESTER  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash	\$ 481,811
Accounts receivable	317
Capital assets not being depreciated	10,400
Capital assets being depreciated - net	153,745
Total assets	646,273
<b>Liabilities</b>	
Accounts payable	13,964
Accrued liabilities	1,598
Total liabilities	15,562
<b>Net Assets</b>	
Investment in capital assets	164,145
Unrestricted	466,566
Total net assets	\$ 630,711

See accompanying notes to financial statements

TOWNSHIP OF CHESTER  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

Functions / Programs	Expenses	P r o g r a m   R e v e n u e s			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					Primary Government
General government	\$ 160,611	\$ 4,892	\$ 23,900	\$ -	\$ (131,819)
Public safety	27,009	-	-	-	(27,009)
Public works	30,482	-	-	-	(30,482)
Total governmental activities	\$ 218,102	\$ 4,892	\$ 23,900	\$ -	(189,310)
General revenue:					
Property taxes and assessments					87,168
Tax administration fees					27,114
State shared revenues					89,214
Interest					8,837
Miscellaneous					374
Total general revenue					212,770
Change in net assets					23,405
Net assets - April 1, 2005					607,308
Net assets - March 31, 2006					\$ 630,711

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006**

**Assets**

Cash	\$ 481,811
Due from other funds	317
	<hr/>
Total assets	482,128
	<hr/> <hr/>

**Liabilities and Fund Balance**

<b>Liabilities</b>	
Payroll liabilities	1,598
<b>Fund Balance</b>	
Equity	480,530
	<hr/>
Total liabilities and fund balance	\$ 482,128
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

<b>Total fund balance - governmental activities (per balance sheet - page 8)</b>	<b>\$ 480,530</b>
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Amounts reported for governmental activities in the statement of net assets (page 6) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	164,145
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Accounts payable due by the Township as of year-end but not billed to the Township or paid within 60 days of year-end are not recorded in the fund financial statements	(13,964)
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<b>Net assets of governmental activities - page 6</b>	<b>\$ 630,711</b>
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See accompanying notes to financial statements

**TOWNSHIP OF CHESTER  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2006**

**Revenues**

Property taxes and assessments	\$ 87,166
State sources	113,114
Charges for services	32,006
Interest	8,837
Miscellaneous	382
	<hr/>
Total revenues	241,505

**Expenditures**

Current:	
General government	140,710
Public safety	27,009
Public works	30,482
	<hr/>
Total expenditures	198,201

<b>Excess of revenues over expenditures</b>	43,304
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<b>Fund Balance - April 1, 2005</b>	437,226
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<b>Fund Balance - March 31, 2006</b>	\$ 480,530
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See accompanying notes to financial statements

**TOWNSHIP OF CHESTER  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006**

<b>Net Change in Fund Balance - Governmental Activities (Page 10)</b>	<b>\$</b>	<b>43,304</b>
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Amounts reported for governmental activities in the Statement of  
Activities (page 7) are different because:

Depreciation expense is recorded in the Statement of Activities, but not in the fund financial statements		(5,937)
--	--	---------

Expenditures due by the Township as of year-end but not billed to the Township or paid within 60 days of year-end are not recorded in the fund financial statements		(13,962)
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<b>Change in Net Assets of Governmental Activities - page 7</b>	<b>\$</b>	<b>23,405</b>
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See accompanying notes to financial statements

TOWNSHIP OF CHESTER  
STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
MARCH 31, 2006

**Assets**

Cash	\$ 3,080
	<u>          </u>

**Liabilities**

Due to other funds	317
Due to other governments	2,763
	<u>          </u>
Total liabilities	\$ 3,080
	<u>          </u>

See accompanying notes to financial statements



**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 1: ENTITY**

The Township of Chester is a general law township of the State of Michigan, located in Otsego County, Michigan. It operates under an elected board and provides services to its residents in many areas including public safety, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Chester Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of Chester Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Chester Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED))**

***Government-Wide Financial Statements (Continued)***

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The Township of Chester has only one governmental fund, general. Therefore, no non-major funds are reported. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental fund:

***General Fund*** - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

***Other Funds***

***Fiduciary Funds*** - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, fees, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Property taxes are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005 are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$86,017,509.

The tax rates for the year ended March 31, 2006, were as follows:

<b>Purpose</b>	<b>Rate / Assessed Valuation</b>
General	0.900 mills per \$1,000

**BUDGET**

Each year the unit formulates and adopts a budget as follows:

1. In January or February a preliminary budget is prepared for all funds.
2. Review and annual budget hearing are held in March.
3. Budget is adopted at the Township Board meeting in March of each year.

The budget as prepared conformed to P.A. 621 of 1978.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. The Township experienced one budget over-expenditure for the year ended March 31, 2006. Township Board expense exceeded the budgeted amount by \$15,990.

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

Estimated useful lives, in years, for depreciable assets are as follows:

Office furniture and equipment	5 - 10 years
Buildings and improvements	25 - 40 years
Land improvements	10 - 20 years

Land is not depreciated.

For information describing capital assets, see Note 5.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE 3: CASH AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated five banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

The Township's deposits and investment policies are in accordance with statutory authority.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

As of March 31, 2006, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 481,811</u>	<u>\$ 3,080</u>	<u>\$ 484,891</u>

The Township's cash and investments consist entirely of bank deposits as follows:

Bank deposits - checking and savings accounts	\$ 169,376
Certificates of deposit	<u>315,515</u>
Total	<u>\$ 484,891</u>

**Deposits**

The bank balance of the Township's deposits totals \$485,506 of which \$475,319 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level are used as depositories.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Capital asset activity of the Township was as follows:

<b>Governmental Activities:</b>	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets not being depreciated - Land	\$ 10,400	\$ -	\$ -	\$ 10,400
Capital assets being depreciated:				
Buildings and grounds	190,785	-	-	190,785
Furniture and equipment	11,674	-	-	11,674
Subtotal	202,459	-	-	202,459
Accumulated depreciation:				
Buildings and grounds	35,772	4,770	-	40,542
Furniture and equipment	7,005	1,167	-	8,172
Subtotal	42,777	5,937	-	48,714
Net capital assets being depreciated	159,682	(5,937)	-	153,745
Net capital assets	<u>\$ 170,082</u>	<u>\$ (5,937)</u>	<u>\$ -</u>	<u>\$ 164,145</u>

Depreciation expense was charged entirely to the general government activity.

**NOTE 5: PENSION PLAN**

The Township of Chester contributes to a pension plan which is a defined contribution pension plan administered by the Manufacturers Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All full-time employees and elected officials over the age of 18 are eligible to participate in the plan. Contributions made by the Township and employees are fully vested immediately. The participant will receive all vested benefits upon termination of employment with the Township. Normal retirement age is 65 or completion of 10 years of service, whichever is later. Early retirement is permitted at age 55.

**TOWNSHIP OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 5: PENSION PLAN (CONTINUED)**

The plan requires the Township to contribute 12% of the eligible employees current compensation. The Township has met all pension obligations for the year ended March 31, 2006. The Township's contribution for the year totaled \$6,221.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**NOTE 6: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Municipal Liability and Property Pool, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.



**TOWNSHIP OF CHESTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Revenues</b>				
Property taxes and assessments	\$ 87,730	\$ 87,730	\$ 87,166	\$ (564)
State sources	75,000	75,000	113,114	38,114
Charges for services	29,000	29,000	32,006	3,006
Interest	10,000	10,000	8,837	(1,163)
Miscellaneous	200	200	382	182
<b>Total revenues</b>	<b>201,930</b>	<b>201,930</b>	<b>241,505</b>	<b>39,575</b>
<b>Expenditures</b>				
<b>General Government</b>				
<b>Township Board:</b>				
Wages	10,600	11,910	11,608	302
Pension and fringes	10,200	10,200	7,420	2,780
Office equipment	2,000	2,000	166	1,834
Professional services	8,000	5,200	30,500	(25,300)
Printing and publishing	800	800	164	636
Membership dues	1,000	1,685	1,684	1
Office supplies	2,000	2,000	1,586	414
Travel	1,000	1,034	1,034	-
Miscellaneous	6,200	6,200	2,857	3,343
<b>Total Township Board</b>	<b>41,800</b>	<b>41,029</b>	<b>57,019</b>	<b>(15,990)</b>
<b>Township Supervisor:</b>				
Salaries	12,528	12,528	11,888	640
Travel	650	650	578	72
Office supplies and other	100	100	-	100
<b>Total Township Supervisor</b>	<b>13,278</b>	<b>13,278</b>	<b>12,466</b>	<b>812</b>
<b>Township Assessor:</b>				
Salaries	19,800	19,800	19,737	63
Office supplies and other	150	150	34	116
<b>Total Township Assessor</b>	<b>19,950</b>	<b>19,950</b>	<b>19,771</b>	<b>179</b>
<b>Election Board:</b>				
Salaries	2,000	2,000	-	2,000
Travel	-	-	-	-
Office supplies and other	950	950	-	950
<b>Total Election Board</b>	<b>2,950</b>	<b>2,950</b>	<b>-</b>	<b>2,950</b>

**TOWNSHIP OF CHESTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Township Clerk:</b>				
Salaries	16,622	16,622	15,310	1,312
Travel	700	700	406	294
Office supplies and other	350	350	336	14
Office equipment	1,500	1,500	998	502
<b>Total Township Clerk</b>	<b>19,172</b>	<b>19,172</b>	<b>17,050</b>	<b>2,122</b>
<b>Township Treasurer:</b>				
Salaries	18,622	19,422	20,232	(810)
Office supplies and equipment	275	306	155	151
Postage	1,300	1,300	1,045	255
Travel	600	741	740	1
Education	600	600	-	600
	<b>21,397</b>	<b>22,369</b>	<b>22,172</b>	<b>197</b>
<b>Board of Review:</b>				
Salaries	1,000	1,160	1,160	-
Office supplies and other	200	200	-	200
Transportation	50	50	-	50
	<b>1,250</b>	<b>1,410</b>	<b>1,160</b>	<b>250</b>
<b>Township Hall:</b>				
Supplies	150	150	122	28
Contract services	2,000	2,151	2,151	-
Telephone	1,500	1,500	1,272	228
Insurance and bonds	4,500	4,500	3,547	953
Utilities	925	1,115	1,203	(88)
Supplies	2,000	2,000	1,630	370
Equipment and repairs	4,500	4,500	1,147	3,353
<b>Total Township Hall</b>	<b>15,575</b>	<b>15,916</b>	<b>11,072</b>	<b>4,844</b>
<b>Total General Government</b>	<b>135,372</b>	<b>136,074</b>	<b>140,710</b>	<b>(4,636)</b>

**TOWNSHIP OF CHESTER  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Public safety</b>	40,000	40,000	27,009	12,991
<b>Public works</b>	83,000	83,000	30,482	52,518
<b>Total Expenditures</b>	258,372	259,074	198,201	60,873
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(56,442)	(57,144)	43,304	100,448
<b>Fund Balance - April 1, 2005</b>	437,226	437,226	437,226	-
<b>Fund Balance - March 31, 2006</b>	<u>\$ 380,784</u>	<u>\$ 380,082</u>	<u>\$ 480,530</u>	<u>\$ 100,448</u>



**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

September 26, 2006

To the Township Board  
Township of Chester, Otsego County

We have audited the financial statements of Chester Township for the year ended March 31, 2006, and have issued our report thereon dated September 26, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 1, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Chester Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Chester Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

The financial records of Chester Township were well organized and we are happy to report that there were no difficulties in performing the audit.

### **Comments and Recommendations**

In planning and performing our audit of the financial statements of Chester Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comments and recommendations should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- We noted that the Township Board appropriately reviews its budget-to-actual results near year-end and properly amends various budgets to avoid over-expenditures. However, for the year ended March 31, 2006, the Township over-expended its Township Board budget by \$15,990. This over-expenditure was a result of an audit adjustment proposed by our firm concerning improper accounting relating to the State of Michigan grant and the corresponding expense associated with the personal property tax audits.

We recommend that the Township continue to monitor its budget-to-actual status and amend the budget when necessary. We further recommend that the Township Clerk notify us when unusual transactions occur so that we may provide guidance on the proper accounting treatment to avoid this situation from occurring in the future.

We hope that you find the above comment and recommendation useful. We are available to discuss these items in further detail with you at your convenience.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "K.K. Cook". The signature is written in a cursive, flowing style.

Keskine, Cook, Miller & Alexander LLP